



Strategic Advisor Newsletter

NOVEMBER 2009

CALL (610) 404-3014 WITH QUESTIONS AND/OR TO SCHEDULE APPOINTMENTS



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Welcome to this current edition of our recently revised newsletter. As mentioned previously, my goal is to not only provide you with any updates that are deemed to be noteworthy but to also pass along to you information on topics about which I am frequently asked. This information will be from my personal study with Ed Slott. Most of you know by now that Ed is referred to by many of the media outlets including the financial news television stations as perhaps the most knowledgeable IRA expert in the nation. I am excited about being able to pass at least some of this information along to you.

Now, on to the topic at hand for this month. I have often been asked (usually around tax time) if there is any way to take a tax deduction on losses in the value of an IRA. Of course, you know I feel strongly that money you need in the next few years should not be "at risk". Better protected accounts are for that purpose and should be taken advantage of. But, can you take a deduction on those losses? The answer is "yes, but should you?" The IRS has thrown in your way some very large hurdles to clear. You see, the deduction can only be taken if you withdraw all the funds from your IRAs. A person cannot take a deduction while any money remains in IRAs (see #2 below). Because of the fact that emptying your IRAs and paying tax on the full amount of redemptions will cost you dearly in most cases, it is not something that will benefit most investors. Withdrawing the funds from IRAs solely to claim a tax loss is a poor move. Not only will you often not realize any net savings, but you are permanently decreasing your tax deferred (or even tax free with a Roth IRA) retirement savings by the amount withdrawn. Although this subject is too complex to cover completely here, the following 6 tests must be passed in order to consider this deduction.

- 1) There must be "basis" in the account meaning that the account must contain some non-deductible contributions or after-tax transfers.
- 2) For a Roth IRA: All funds from all Roth IRAs must be withdrawn. For Traditional IRAs: All funds from traditional, SEP, and SIMPLE IRAs must be withdrawn.
- 3) The amount of "basis" must exceed the amount withdrawn.
- 4) You must itemize deductions on you tax return instead of taking the standard deduction.
- 5) The total deduction must exceed 2% of your AGI (Adjusted Gross Income).
- 6) You must not be subject to the alternative minimum tax.

Important Note: This information is for general purposes only and should not be construed as specific tax or investment advice. Tax information was obtained from sources believed to be reliable, however, tax laws are complex and subject to change. Be sure to consult with a tax professional regarding your personal situation.

For any further information on this or any other subject, please call the office. I look forward to bringing you another subject next month.